



FEDERAL ELECTION COMMISSION  
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October 30, 2003

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2003 OCT 31 A 9:38

**MEMORANDUM**

**TO:** Lawrence H. Norton  
General Counsel

**THROUGH:** James A. Pehrkon  
Staff Director

Robert J. Costa  
Deputy Staff Director

**FROM:** Joseph F. Stoltz  
Assistant Staff Director  
Audit Division

Thomas J. Nurthen  
Audit Manager

**SUBJECT:** Report of the Audit Division on Missouri Republican State Committee – Federal Committee – Referral Matters

On October 9, 2003, the Commission approved the Report of the Audit Division on the Missouri Republican State Committee – Federal Committee (MRFC). The report was released to the public on October 22, 2003. In accordance with the Commission approved materiality thresholds, Findings 2. and 6. from the audit report are being referred to your office.

Finding 2. Shared Federal and Non-Federal Expenses  
Finding 6. Misstatement of Financial Activity

Finding 6. addressed MRFC's misstated financial activity. As noted on page 14 of the audit report, reported receipts and disbursements were understated by an additional \$6,137,541. These payments were made directly to vendors from the non-federal account. However, since they represented shared activity, such amounts should have been transferred to the allocation account, disbursed and reported (see Finding 2.).

All workpapers and related documentation are available for review in the Audit Division. Should you have any questions, please contact Jeff Spilizewski or Tom Nurthen at 694-1200.

Attachment:

Finding 2. Shared Federal and Non-Federal Expenses, pages 7-9.

Finding 6. Misstatement of Financial Activity, pages 11-14.

24.04.08.3696

## **Finding 2. Shared Federal and Non-Federal Expenses**

### **Summary**

The Audit staff identified payments totaling \$8,860,461 for shared activity related to issue advocacy media that were not paid out of MRFC's allocation account. Instead, payments were issued directly to the vendors from the federal fund (federal) and general fund (non-federal) accounts. Additionally, MRFC reported only the federal share on Schedules B, rather than both the federal and non-federal shares on Schedules H4. MRFC complied with the Audit staff's recommendation by filing amended Schedules H-4, disclosing as memo entries the total amount paid, the federal share, and the non-federal share.

### **Legal Standard**

**Accounts for Federal and Non-Federal Activity.** A party committee that finances political activity in connection with both federal and non-federal elections must establish two accounts (federal and non-federal) and allocate shared expenses--those that simultaneously support federal and non-federal election activity—between the two accounts. Alternatively, the committee may conduct both federal and non-federal activity from one bank account, considered a federal account. 11 CFR §102.5(a)(1)(i).

**Federal vs. Non-Federal Account.** The federal account may contain only those funds that are permissible under the federal election law; the non-federal account may contain funds that are not permitted under the federal law (but are legal under state law), such as contributions that exceed the limits of the federal law and contributions from prohibited sources, such as corporations and labor organizations. 11 CFR §102.5(a)(1)(i) and (a)(3).

**Paying for Allocable Expenses.** FEC regulations offer party committees two ways to pay for allocable, shared federal/non-federal expenses.

- They may pay the entire amount of the shared expense from the federal account and transfer funds from the non-federal account to the federal account to cover the non-federal share of that expense; or

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<sup>5</sup> For the two outstanding refund checks, MRFC will provide copies of the front and back of the refund checks once they are negotiated.

- They may establish a separate, federal allocation account into which the committee deposits funds from both its federal and non-federal accounts solely for the purpose of paying the allocable expenses of shared federal/non-federal activities. 11 CFR §106.5(g)(1)(i) and (ii)(A).

**Reporting Allocable Expenses.** A political committee that allocates federal/non-federal expenses must report each disbursement it makes from its federal account (or separate allocation account) to pay for a shared federal/non-federal expense. Committees report these kinds of disbursements on Schedule H4. 11 CFR §104.10(b)(4)

**Allocation Required for Generic Voter Drives.** State and local party committees must allocate all of their costs for generic voter drives. A generic voter drive is an activity that urges the general public:

- To register to vote;
- To vote; or
- To support candidates of a particular party or candidates who are associated with a particular issue, without mentioning a specific candidate. 11 CFR §106.5(a)(2)(iv).

### **Facts and Analysis**

MRFC established an allocation account pursuant to 11 CFR §102.5(a)(1)(i). As such, payments for shared activity<sup>6</sup> should have been paid from its allocation account. The Audit staff identified payments totaling \$8,860,461 for shared activity related to issue advocacy media that were not paid out of MRFC's allocation account. MRFC paid \$2,722,920 to six vendors directly from its federal account and \$6,137,541 to the same vendors, for the same services, directly from its non-federal account.

MRFC should have: 1) transferred the federal portion of these expenses from its federal account into its allocation account; 2) transferred the non-federal portion of these expenses from its non-federal account into its allocation account; and, 3) paid these vendors from the allocation account.

These payments should have then been reported on both Schedules H4 and on Line 21a of the Detailed Summary Page. Instead, MRFC reported the federal share (\$2,722,920) on Schedules B and Line 21b (Other Federal Operating Expenditures), but did not report the non-federal share (\$6,137,541).

### **Interim Audit Report Recommendation and Committee Response**

In response to a recommendation in the interim audit report, MRFC filed amended reports retaining the Schedule B, line 21(b) entries<sup>7</sup> and disclosing on Schedule H-4 as memo entries, the total amount paid, the federal share, and the non-federal share. The

<sup>6</sup> Shared activity refers to activity that relates to both federal and non-federal elections. Committees must allocate expenses for shared activity between their federal and non-federal accounts. See Legal Standard above.

<sup>7</sup> The original entries on Schedule B must remain since the Schedule H4 entries must be entirely memo entries. Electronically filed Schedules H4 may not contain entries that are partially memo and partially non-memo.

description on each memo entry on Schedule H-4 stated "to recognize payments from the non-federal account directly to vendor."

24-04-408-3699

## **Finding 6. Misstatement of Financial Activity**

### **Summary**

When MRFC's reported figures were compared to its bank records, the Audit staff found that, for calendar years 1999 and 2000, receipts, disbursements, and cash-on-hand balances had been misstated. MRFC complied with the Audit staff's recommendation by filing amended reports for calendar years 1999 and 2000 correcting these misstatements. To the extent that current cash on hand amounts were incorrect, MRFC will be amending its reports subsequent to 2000 in the near future.

<sup>9</sup> The 1999 State Victory Fund, the joint fundraising representative, is an affiliated committee of MRFC.

## Legal Standard

**Contents of Reports.** Each report must disclose:

- The amount of cash on hand at the beginning and end of the reporting period;
  - The total amount of receipts for the reporting period and for the calendar year; and
  - The total amount of disbursements for the reporting period and for the calendar year.
- 2 U.S.C. §434(b)(1), (2) and (4).

## Facts and Analysis

The following chart details the discrepancies between the totals on MRFC's disclosure reports and bank records. The chart lists (a) the amounts MRFC reported, (b) the actual amounts listed on its bank statements, and (c) the discrepancies between the two figures. Succeeding paragraphs explain why the discrepancies occurred. MRFC did not provide records to explain how amounts shown on its reports were calculated; as such, not all discrepancies could be explained.

### Comparison of Disclosure Reports and Bank Records

Calendar Year	Reported	Bank Records	Difference
Cash on Hand at 01/01/99	\$127,075	\$57,894	\$69,181 Overstated
1999 Receipts	\$1,295,434	\$1,366,887	\$71,453 Understated
1999 Disbursements	\$1,280,546	\$1,313,306	\$32,760 Understated
2000 Receipts	\$9,396,291	\$9,234,954	\$161,337 Overstated
2000 Disbursements	\$8,863,716	\$9,111,017	\$247,301 Understated
Cash on Hand at 12/31/00	\$696,686	\$256,206	\$440,480 Overstated

## Explanation of Discrepancies

### Beginning Cash on Hand – January 1, 1999

The overstatement of cash on hand was the result of the following transactions:

- |                                                       |                   |
|-------------------------------------------------------|-------------------|
| • Erroneous adjustment made to beginning cash by MRFC | \$ -68,821        |
| • Unexplained difference                              | <u>-360</u>       |
| Net overstatement                                     | \$ <u>-69,181</u> |

### Receipts – 1999

The understatement of receipts was the net result of the following transactions:

- |                                                     |           |
|-----------------------------------------------------|-----------|
| • Contributions and other receipts not reported     | \$ 42,169 |
| • Refunds, rebates, and reimbursements not reported | 22,995    |
| • Party committee transfers not reported            | 7,500     |

• Transfers from the non-federal account reported in error	-4,626
• Unexplained difference	<u>3,415</u>
Net understatement	\$ <u>71,453</u>

**Disbursements – 1999**

The understatement of disbursements was the net result of the following transactions:

• Transfers to the non-federal account not reported	\$ 36,314
• Disbursements not reported	5,751
• Disbursement amount reported incorrectly	-7,949
• Miscellaneous disbursement reporting errors	- 444
• Unexplained difference	<u>-912</u>
Net understatement	\$ <u>32,760</u>

**Receipts – 2000**

The overstatement of receipts was the net result of the following transactions:

• Transfers from the non-federal account not reported	\$ 107,792
• Contributions not reported	73,700
• Republican National Committee transfers not reported	48,000
• Refunds, rebates, and other receipts not reported	2,055
• National party transfers to the non-federal account reported	-359,838
• Contributions deposited to the non-federal account reported	-15,000
• Unexplained difference	<u>-18,045</u>
Net overstatement	\$ <u>161,337</u>

**Disbursements – 2000**

The understatement of disbursements was the net result of the following transactions:

• Transfers to the non-federal account not reported	\$ 454,202
• Disbursements not reported or under-reported	83,574
• Disbursements reported twice	-275,987
• Disbursement amount reported incorrectly	-10,386
• Unexplained difference	<u>-4,102</u>
Net understatement	\$ <u>247,301</u>

**Ending Cash on Hand – December 31, 2000**

The overstatement of the closing cash on hand was the net result of the misstatements described above.

\$-440,480

In addition to the above, MRFC's reports of receipts and disbursements were understated by an additional \$6,137,541. These payments were made directly to vendors from the non-federal account. However, since they represented shared activity, such amounts should have been transferred to the allocation account, disbursed and reported (See Finding 2).

24-04-408-3702



**Interim Audit Report Recommendation and Committee Response**

The Audit staff recommended that MRFC:

- Disclose as memo entries on amended Schedules A contributions, or portions thereof, which were transferred to the non-federal account and, as memo entries on amended Schedules B, the subsequent transfers of these amounts to the non-federal account (Also see Findings 1 and 3 above).
- File amended reports for each reporting period in calendar years 1999 and 2000 for the remaining misstated transactions. These reports should include the amended schedules requested in previous findings. Finally, to the extent that current cash on hand amounts are incorrect, amended reports to correct recent reports should be filed.

In response MRFC filed amended reports materially correcting the misstatements discussed above.

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